

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Promote Policy
and Program Coordination and Integration in
Electric Utility Resource Planning.

Rulemaking 04-04-003
(Filed April 1, 2004)

**ASSIGNED COMMISSIONER'S RULING
REGARDING RELIABILITY ISSUES**

As I have previously stated, California must take all steps to assure reasonable reliability of its electric system. To achieve such reliability, existing resources must be utilized in an efficient and rational manner. On a daily basis, the California Independent System Operator (CAISO) must ensure that sufficient generating capacity is on-line and available to meet the forecast load of the system. As part of that effort, the CAISO must not only determine whether there is a sufficient amount of on-line generating capacity to satisfy the total system load, but must also determine whether that capacity is in the right place. For example, the ISO must frequently have a minimum amount of on-line generation in certain locations in order to address transmission constraints or other specific operating requirements, such as maintaining proper voltage and other system-stability related requirements. Absent satisfaction of the CAISO's location-specific operating requirements, the CAISO may be unable to operate the grid reliably, both this summer and beyond.

Paul Clanon, Director of the Commission's Energy Division has received a copy of the CAISO's letter to Southern California Edison (dated June 10, 2004), included here as Attachment 1. As the letter notes, in recent months, the CAISO

has had to increasingly manage congestion and otherwise address location-specific operating requirements in real time, rather than in the day-ahead time frame, resulting in operational difficulties for the CAISO, and concerns about reliability, particularly for the summer months when the system is stressed.

I believe that the reliability of the California electric system would be enhanced if the utilities were to take into account known and reasonably anticipated congestion on the transmission system when procuring and scheduling resources. Further, it is also prudent and reasonable for a utility to take into account not only its own direct costs, but rather the total costs of their procurement and scheduling, including, to the extent they are able to discern them, the costs associated with both system reliability and local area reliability within their service territories.

In order to take full advantage of available transmission and generation resources available to meet California electricity needs and to rationalize the scheduling of resources, it is reasonable for utilities to schedule resources so as to not increase known or reasonably anticipated congestion on the transmission system and to schedule such resources consistent with established and identified reliability requirements.

I intend to ask my colleagues to modify Decision (D.) 02-10-062, D.02-12-074, D.03-12-062 and D.04-01-050,¹ to provide clarification on utility short-term procurement as follows:

¹ Note that these decisions were issued in our prior procurement rulemaking, R.01-10-024. Because we are addressing procurement issues in our new rulemaking, I am addressing these reliability concerns in the new proceeding. However, this ruling also will be served on parties to R.01-10-024.

The utilities' procurement and scheduling processes are guided by Commission decisions requiring competitive processes and lowest cost, including least-cost dispatch. We here clarify that the utilities should not limit their calculation of least-cost to their own direct costs. Rather the utilities should include in their calculations, to the extent they are able to discern them, the total costs of their procurement practices, including the costs associated with both system reliability and local area reliability within their service territories.

In D.03-12-062, we stated that utilities should engage in competitive procurement processes "unless a strong showing is made" that ratepayers would benefit from bilaterally negotiated transactions. We relax this requirement to authorize the utilities to engage in short term procurement of resources for local reliability purposes and, where appropriate, to further system-wide reliability, to meet the needs of summer 2004 through summer 2005.

We recognize that there is a tension between reliability and least cost procurement. Nonetheless, and notwithstanding any language in any prior Commission decision, utility short term procurement for summer 2004 through summer 2005 should not focus simply on direct, day-ahead procurement and congestion costs, but instead must also incorporate all ISO-related forward commitment and congestion management costs when scheduling resources and making resource commitments. The utilities must incorporate all known and reasonably anticipated ISO-related costs, including congestion and other redispatch costs and must-offer costs when evaluating procurement and dispatch options.

Furthermore, in addition to the guidance provided regarding utility procurement, we direct the utilities, to the extent practicable, to schedule their procured resources with the ISO in a manner consistent with the guidelines identified above. Therefore, the utilities should schedule resources so as to not increase known or reasonably anticipated congestion on the transmission system and should schedule such resources consistent with established and identified reliability requirements.

This direction is consistent with our prior decisions. As we stated in D.02-10-062, at pages 17-18, “In making plans to procure a mixture of resources, the utilities should take into account the Commission’s longstanding procurement policy priorities – reliability, least cost, and environmental sensitivity. While each of these priorities is important individually, they are also strongly interrelated. Increased reliability may increase procurement costs.” Similarly, in D.04-01-050 we stated, “We direct the utilities to include a local reliability component in their next procurement plan. This approach will facilitate a more comprehensive approach to resource planning.” Accordingly, a utility procurement plan, or utility scheduling practices, that procures or schedules solely on least cost energy, without regard to deliverability of procured energy to load or to local reliability, is not in compliance with either AB 57 or our prior decisions.

We intend to provide reasonable assurances that utilities will recover costs incurred for reliability purposes. Actions taken in furtherance of this directive will be deemed consistent with the utilities’ already approved short-term procurement plans and thereby subsumed with the protection provided by AB 57.

The draft decision will be issued for comment shortly and I intend to put it before my colleagues for their consideration at the July 8 Commission meeting. Respondents shall, and interested parties may, comment on the approach I recommend in this ruling. Comments on the issues raised in the ruling shall be filed and served by June 17, 2004 and shall:

1. Identify particular language in the text of the decisions, findings of fact, conclusions or law, and/or Ordering Paragraphs to which conforming changes should be made.
2. Provide proposed language regarding assurance of cost-recovery.
3. Propose cost-recovery mechanisms to appropriately recover reliability-related costs from non-IOU load serving entities, such

as Direct Access providers and municipal utilities operating in the IOU service territory.

4. Propose criteria for determining the appropriate level or range of “reliability premium,” and for determining the presence of supplier market power.

IT IS SO RULED.

Dated June 10, 2004, at San Francisco, California.

/s/ MICHAEL R. PEEVEY

Michael R. Peevey
Assigned Commissioner



ATTACHMENT 1

June 10, 2004

Mr. Pedro Pizarro
Vice President of Power Procurement
Southern California Edison Company
2244 Walnut Grove Avenue
Rosemead, CA 91770

RE: Short-term Procurement and Scheduling Concerns

Dear Mr. Pizarro:

The purpose of this letter is to follow up on the June 7, 2004 conference call between our staffs and to request Southern California Edison Company's (SCE's) continued help in working with the ISO to better align the forward-market procurement and scheduling practices to support the ISO's reliability requirements. SCE generally does a commendable job in satisfying and managing its total *energy* requirements. However, the ISO continues to battle congestion caused by excessive and frequent schedules that are not completely deliverable nor do they consider local reliability needs. Such practices have very serious impacts to the ISO's core mission and require the ISO grid operators to redispatch large volumes of the system in real time, significantly complicating our efforts to maintain reliable system operations.

Specific Areas of Need

As we have discussed with SCE at times over the past few weeks, our specific area of concern is generally defined as South of Path 26, South of Lugo, and North of Miguel. Focused attempts must be made by SCE and others to ensure that adequate and effective generation is committed and dispatchable within this area. As you are aware, generation in the Northeastern portion of this area is more effective in addressing congestion and reliability requirements. It is our desire to see SCE and others acknowledge and address these needs in their forward-market procurement and scheduling practices, thus reducing the presently significant volume of redispatch.

The ISO is aware that SCE is in the final stages of a Request For Offer ("RFO") process and we request that you consider, in the RFO process, the ISO's resource and scheduling needs outlined above. Please be aware that increased procurement and scheduling from resources outside the referenced area may act to exacerbate the already concerning levels of congestion and serious reliability problem.

ISO Provision of Needed Information

In order for all Market Participants to make more informed decisions concerning resource scheduling and procurement, it is understood that the ISO must supplement currently available information as allowed by our Tariff.

As a first step, the ISO is currently identifying and preparing for publication all generic system and local area information that would assist SCE and others in making procurement and scheduling decisions that are aligned with the ISO's reliability requirements. Such information could include, among other information: 1) all applicable system and local area operating procedures and nomograms, such as the Southern California Import Transmission ("SCIT") nomogram; 2) areas of chronic intra-zonal congestion and the extent and cost of ISO real-time redispatch instructions to alleviate such congestion; 3) information regarding, on an aggregate basis, the generation the ISO commits on a regular basis through the existing must-offer waiver process to satisfy reliability requirements; 4) all grid outages that impact transfer capability, including not only outages at the interconnection points with other control areas, as is currently done, but also for internal grid facilities the availability of which impacts the congestion areas at issue.

I urge you to continue to work with the ISO staff and to closely examine this issue so that solutions are reached that address this very serious operational and reliability problem.

As you know the ISO is working closely with the CPUC on these issues. In fact, we understand that they are considering issuing a short-term procurement order to provide clarity on least-cost scheduling and procurement that recognizes local reliability needs.

Finally, let me say that I appreciate you and your staff's support in working to collaboratively address the issues involved in maintaining a reliable system. I sincerely believe that it is only through the collective action of all involved that we can continue to stabilize the California energy market and maintain a reliable system for this summer and into the future.

Sincerely,

Original signed by

Jim Detmers

Vice President, Grid Operations
Acting Chief Operations Officer

Cc: P. Clanon, CPUC
K. Cini, SCE
R. Nunnally, SCE
R. Abernathy, ISO
J. McIntosh, ISO
R. Cashdollar, ISO
M. Ford, ISO

(END OF ATTACHMENT 1)

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Assigned Commissioner's Ruling Regarding Reliability Issues on all parties of record in this proceeding and in Rulemaking 01-10-024 or their attorneys of record. In addition, service was also performed by electronic mail.

Dated June 10, 2004, at San Francisco, California.

/s/ FANNIE SID

Fannie Sid

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.